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# Health Savings Accounts

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*Health savings accounts were created under the federal "Medicare Prescription Drug Improvement and Modernization Act of 2003," signed into law on December 8, 2003. These accounts were available as of January 4, 2004.*

## **What is a health savings account?**

A *health savings account* is a new way of saving money for health expenses in a tax-free account. The money can either be used to pay for current health expenses or saved for future qualified medical and retiree health expenses.

## **Am I eligible for a health savings account?**

To be eligible:

- You must be covered by a qualified *high deductible health plan*.
- You cannot be:
  - ✗ Covered by other health insurance (excluding specific injury, accident, disability, dental care, vision care and long-term care insurance)
  - ✗ Eligible for Medicare
  - ✗ Claimed as a dependent on someone else's tax return

## **What is a high deductible health plan?**

A *deductible* is the amount you must pay before your health plan pays. For 2008, a high deductible health plan has a minimum deductible of

- \$1,100 (individual self-only coverage) or
- \$2,200 (family coverage)

The annual out-of-pocket (including deductibles and co-pays) cannot exceed \$5,600 (individual self-only coverage) or \$11,200 (family coverage). High deductible health plans can have "first dollar coverage" (no deductible) for preventive care and higher out-of-pocket (co-pays and coinsurance) for non-network services.

## **How do I get started?**

You can sign up for a health savings account with a provider – generally an insurance company or a bank. Employers may also set up plans for employees.

## **Who can contribute to a health savings account?**

Either you, your employer or both can contribute. The amount you contribute is an "above the line" tax deduction that reduces your taxable income. Employer contributions are not taxable to the employee (excluded from income). Contributions also can be made by others on behalf of an eligible individual and deducted by the individual. All contributions are combined.

## **How much can I contribute to a health savings account?**

The maximum contribution is the lesser of the deductible amount under the high deductible health plan or \$2,900 for individuals or \$5,800 for family coverage in 2008. These dollar limits will be adjusted for inflation each year.

### **Do health savings account funds roll over year after year and get invested?**

Yes, the money invested in a health savings account rolls over year after year.

### **How is a health savings account different from a medical savings account or a flexible spending account?**

*Medical savings account* – The contribution guidelines for a health savings account are more generous than for a medical savings account. For example, under a medical savings account, either you or your employer can make contributions but both of you cannot do so in the same year.

*Flexible spending account* – This is a plan established by an employer that allows you to defer pretax earnings into an account. You can withdraw funds to pay medical expenses and/or qualified child-care expenses. There is no roll-over provision. Any unused funds remaining at the end of the year are forfeited.

### **Who has control over the money invested in a health savings account?**

In most cases the individual will have control over the assets. However, some employers are exploring the idea of having control over the investments.

### **What happens to the money in a health savings account after you reach age 65?**

Once you reach 65, the amounts can be used for health expenses and to pay certain insurance premiums like Medicare Part A & B, Medicare HMO and the employee's share of retiree medical insurance premiums. It cannot be used to purchase a Medigap policy. It also can be used for any other expenses. If used for medical expenses, the amounts come out of the account tax-free. If used for other expenses, the amount received will be taxable.

### **Can the money in a health savings account be rolled over into an IRA?**

You cannot roll the funds over into an IRA. The money must remain in the original health savings account or be rolled into another.

### **What can money from the health savings account be used for?**

The amounts can be distributed for either qualified medical or other expenses. If the amount distributed is used for qualified medical expenses, then the distribution is tax-free. Over-the-counter drugs are included. If the amount distributed is used for other than qualified medical expenses, the amount distributed will be taxed and, for individuals who are not disabled or over age 65, subject to a 10 percent tax penalty.

In general the money cannot be used to pay for other health insurance premiums including Medigap coverage. However, you can use the money for:

- COBRA continuation coverage
- Health plan coverage while receiving unemployment compensation
- Medicare premiums and out-of-pocket expenses (Part A, Part B, Medicare HMOs, new prescription drug coverage)
- Long-term care costs and qualified long-term care insurance

### **Are dental and vision care qualified medical expenses under a health savings account?**

Yes, as long as these are deductible under the current rules. For example, cosmetic procedures, like cosmetic dentistry, are generally not deductible and would not be considered qualified medical expenses.

### **What preventive health care expenses are covered by health savings account policies?**

Covered preventive care includes, but is not limited to, the following:

- Periodic health evaluations, including tests and diagnostic procedures ordered in connection with routine examinations, such as annual physicals

- Routine prenatal and well-child care
- Child and adult immunizations
- Tobacco cessation and obesity weight-loss programs
- Screening services including mammograms, Pap smears, ultrasonography in pregnancy, and newborn hearing screening

### Can anyone make catch-up contributions to a health savings account?

Individuals 55 and older who are covered by a high deductible health plan can make extra catch-up contributions. They may make contributions anticipating medical expenses that will not be covered under Medicare – such as a portion of prescription drug costs or Medicare Part A & B premiums. For individuals age 55 and older, additional “catch-up” contributions to health savings accounts are allowed as follows:

2007 - \$800

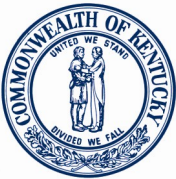
2008 - \$900

2009 and after - \$1,000

Contributions must stop once an individual is eligible for Medicare. If both spouses are eligible individuals, both may make catch-up contributions.

### Do you have questions about health savings accounts?

For questions involving individuals, call 800-829-1040. For questions involving businesses, call 800-829-4933. For more information about health-savings accounts, visit the U.S. Treasury’s Web site at <http://www.treas.gov/offices/public-affairs/hsa/>.



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May 2010

